

Message Text

CONFIDENTIAL

PAGE 01 MADRID 04509 01 OF 02 132042Z

ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 SP-02 USIA-06 AID-05 EB-07
NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02
OPIC-03 LAB-04 SIL-01 PA-01 PRS-01 /096 W
-----132126Z 053606 /64

P R 131833Z JUN 77

FM AMEMBASSY MADRID

TO SECSTATE WASHDC PRIORITY 626

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

USMISSION GENEVA

AMEMBASSY THE HAGUE

AMEMBASSY LISBON

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

C O N F I D E N T I A L SECTION 1 OF 2 MADRID 4509

USEEC

USOEC D

USSCC

E.O. 11652: GDS

TAGS: PINT, ECON, EFIN, SP

SUBJECT: THE SPANISH ECONOMY - AN ELECTION EVE ASSESSMENT

REF: MADRID 1145

1. SUMMARY: ON THE EVE OF SPAIN'S FIRST PARLIAMENTARY

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MADRID 04509 01 OF 02 132042Z

ELECTIONS IN 40 YEARS, THE ECONOMY REMAINS PLAGUED BY
HIGH AND ACCERATING INFLATION, MAJOR BALANCE OF PAY-
MENTS DEFICITS, LAGGING INVESTMENT, LACKLUSTER OUTPUT,
AND GRADUALLY INCREASING UNEMPLOYMENT. IN THE ABSENCE
OF CORRECTIVE STABILIZING MEASURES, WHICH THE GOVERN-
MENT HAS POSTPONED FOR FEAR OF DISRUPTING THE ELECTION
PROCESS, GENERAL DETERIORATION WILL CONTINUE THROUGHOUT

THE YEAR. DURING THE ELECTION CAMPAIGN, CURRENT PROBLEMS OF INFLATION AND UNEMPLOYMENT HAVE BEEN MAJOR THEMES AS HAVE SPAIN'S SERIOUS SOCIO-ECONOMIC IMBALANCES AND INEQUITIES. CONTENDING PARTIES AND COALITIONS, HOWEVER, HAVE SHIED AWAY FROM PRESCRIBING SPECIFIC CORRECTIVE MEASURES FOR MOST PRESSING PROBLEMS. THE CENTRIST COALITION LED BY PRIME MINISTER SUAREZ, WHICH IS VIRTUALLY ASSURED OF WINNING A PLURALITY (BUT SEEMS TO HAVE ALMOST NO CHANCE OF AN ABSOLUTE MAJORITY) IS BELIEVED TO FAVOR MODERATE STABILIZATION MEASURES INCLUDING MORE RESTRICTIVE MONETARY POLICY, IMPROVED TAX COLLECTION, WAGE-PRICE DISCIPLINE, AND EXCHANGE RATE ADJUSTMENT, COMBINED WITH SOME INCREASE IN PUBLIC INVESTMENT AND IMPROVED UNEMPLOYMENT BENEFITS. MOST OF THESE MEASURES COULD BE IMPLEMENTED WITHOUT LEGISLATIVE ACTION BY THE NEW PARLIAMENT, BUT THE GOVERNMENT WILL PROBABLY SEEK PARLIAMENTARY APPROVAL FOR THE PROGRAM IN OUTLINE. THE LEFT IS LIKELY TO DO WELL IN THE ELECTIONS, AND ITS VIEWS ON UNEMPLOYMENT, FISCAL REFORM AND PERHAPS OTHER ISSUES OF PRIVILEGE AND SOCIAL CONCERN WILL HAVE TO BE TAKEN INTO ACCOUNT. STILL IN DOUBT ARE THE GOVERNMENT'S ABILITY TO OBTAIN LABOR COOPERATION FOR AN EFFECTIVE INCOMES POLICY AND THE EXTENT OF IMPLEMENTATION OF MEANINGFUL STABILIZATION MEASURES. END SUMMARY.

2. AS SPANISH VOTERS GO TO THE POLLS TO ELECT A PARLIAMENT FOR THE FIRST TIME IN 40 YEARS, THE ECONOMY IS PLAGUED BY BASIC IMBALANCES WHICH CANNOT LONG BE NEGLECTED. THE EMBASSY'S FEBRUARY ASSESSMENT (REFTEL) CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MADRID 04509 01 OF 02 132042Z

REMAINS ESSENTIALLY VALID. REAL OUTPUT IS INCREASING SLIGHTLY (ABOUT 2 PERCENT OF AN ANNUAL BASIS) AS IS THE RATE OF UNEMPLOYMENT, PARTICULARLY AMONG YOUNG PEOPLE WHO ARE SEEKING JOBS FOR THE FIRST TIME AND ARE NOT COVERED BY UNEMPLOYMENT BENEFITS. INFLATION HAS ACCELERATED DURING THE FIRST FOUR MONTHS OF THIS YEAR TO A PROJECTED ANNUAL RATE APPROACHING 30 PERCENT DUE TO A COMBINATION OF WAGE INCREASES, MONETARY EXPANSION, THE MARCH INCREASE IN DOMESTIC FUEL PRICES, AND SOME RISE IN THE PRICE OF IMPORTS. EXPORT PERFORMANCE THUS FAR THIS YEAR IS GOOD - INCREASING BY 20 PERCENT IN VALUE COMPARED WITH A 6 PERCENT INCREASE FOR IMPORTS - BUT NOT SUFFICIENT TO REDUCE SIGNIFICANTLY LAST YEAR'S \$8 BILLION TRADE DEFICIT. THE DEGREE OF RECOVERY IN TOURIST REVENUE PREDICTED BY THE GOVERNMENT HAS SO FAR NOT OCCURRED, NOR HAS THERE BEEN ANY INCREASE IN WORKERS' REMITTANCES, ALTHOUGH THESE MAY IMPROVE LATER IN THE YEAR. THE GOVERNMENT CONTINUES TO COVER ITS LARGE CURRENT ACCOUNT DEFICITS (IN THE \$4 TO \$4.5 BILLION RANGE) BY

ALLOWING RESERVES TO FALL AND BY ENERGETICALLY SEEKING
FOREIGN CREDITS IN THE U.S., WESTERN EUROPE, AND
ELSEWHERE.

3. AS EXPECTED, THE GOVERNMENT HAS POSTPONED ANY
MEASURES DESIGNED TO CURB INFLATION AND REDUCE THE
BALANCE OF PAYMENTS DEFICIT UNTIL SOME TIME AFTER
ELECTIONS. IT HAS DONE SO PARTLY DUE TO CONCERN THAT
UNPOPULAR ECONOMIC MEASURES COULD DISRUPT PEACEFUL
EVOLUTION TO THE ELECTIONS, PARTLY BECAUSE SUAREZ
HIMSELF HAS BEEN RUNNING FOR OFFICE, AND PARTLY BECAUSE
THE GOVERNMENT IS HOPEFUL THAT THE POST-ELECTION
POLITICAL MAKE-UP WILL PROVIDE A CLEARER PICTURE OF
LIKELY PUBLIC SUPPORT FOR SPECIFIC CORRECTIVE MEASURES
AND OF APPROPRIATE INTERLOCUTORS.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 MADRID 04509 02 OF 02 132052Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 SP-02 USIA-06 AID-05 EB-07
NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02
OPIC-03 LAB-04 SIL-01 PA-01 PRS-01 /096 W
-----132126Z 053734 /64

P R 131833Z JUN 77
FM AMEMBASSY MADRID
TO SECSTATE WASHDC PRIORITY 627
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
USMISSION GENEVA
AMEMBASSY THE HAGUE
AMEMBASSY LISBON
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME

C O N F I D E N T I A L SECTION 2 OF 2 MADRID 4509

USEEC

USOECD

USSCC

4. THE ECONOMIC SITUATION HAS OF COURSE BEEN A MAJOR THEME IN THE ELECTION CAMPAIGN. INFLATION AND UNEMPLOYMENT HAVE RECEIVED SOMEWHAT MORE ATTENTION THAN THE BALANCE OF PAYMENTS WHICH IS A PROBLEM THE GENERAL PUBLIC DOES NOT UNDERSTAND WELL. ALONG WITH INFLATION AND UNEMPLOYMENT, CONTENDING POLITICAL PARTIES AND COALITIONS HAVE FOCUSED OF MORE BASIC STRUCTURAL SOCIO-
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MADRID 04509 02 OF 02 132052Z

ECONOMIC PROBLEMS SUCH AS INCOME DISTRIBUTION, REGIONAL DISPARITIES, PUBLIC SERVICES, OLIGOPOLISTIC BUSINESS PRACTICES, AND PUBLIC OWNERSHIP. NOT SURPRISINGLY, POLITICAL GROUPS TO THE RIGHT OF THE POLITICAL SPECTRUM HAVE EMPHASIZED THE NEED FOR MEASURES TO CURB INFLATION AND REDUCE THE EXTERNAL DEFICIT WHILE GROUPS TO THE LEFT HAVE SPOKEN MORE OF UNEMPLOYMENT AND SPAIN'S SOCIAL INEQUITIES. ALL OF THE PARTIES HAVE SHIED AWAY FROM COMMITTING THEMSELVES TO SPECIFIC MEASURES TO CONFRONT CURRENT PRESSING PROBLEMS, AND NONE HAS OUTLINED A COMPREHENSIVE ECONOMIC ACTION PROGRAM.

5. VARIOUS ECONOMISTS ASSOCIATED WITH THE SUAREZ LED CENTRIST COALITION (UCD), HOWEVER, HAVE SPOKEN OF SOME SPECIFIC MEASURES WHICH SHOULD BE TAKEN AS PART OF AN IMMEDIATE BUT MODERATE STABILIZATION PROGRAM COMBINED WITH MEDIUM AND LONG TERM MEASURES TO RECTIFY STRUCTURAL IMBALANCES AND INEQUITIES. THEY INCLUDE A MORE RESTRICTIVE MONETARY POLICY THAN THE PRESENT ACCOMMODATING 21 PERCENT ANNUAL INCREASE IN THE MONEY SUPPLY, LIBERALIZATION OF INTEREST RATES, TO ENCOURAGE SAVINGS AND DIRECT INVESTMENT TO MORE LABOR INTENSIVE PRODUCTION, INCREASED PUBLIC INVESTMENT IN DEPRESSED AREAS, MORE AGGRESSIVE MEASURES TO REDUCE TAX EVASION WITH MORE BASIC TAX REFORM LATER, INCREASED INCENTIVES FOR EXPORTS, ADJUSTMENT OF THE PESETA PARITY, IMPROVED UNEMPLOYMENT BENEFITS, AND AN INCOMES POLICY THAT WOULD PROBABLY REQUIRE SOME FORM OF WAGE AND PRICE CONTROLS UNTIL GREATER WAGE RESTRAINT CAN BE NEGOTIATED. IF, AS IS EXPECTED, THE CENTRIST COALITION WINS A PLURALITY IN THE ELECTIONS, THESE MEASURES MAY BE PART OF A NEW ECONOMIC PROGRAM WHICH THE GOVERNMENT WILL SPONSOR.

6. THESE MEASURES ARE ALL INDICATED BY SPAIN'S PRESENT ECONOMIC SITUATION, AND WHILE MORE RESTRICTIVE MONETARY POLICY WOULD HAVE AN INITIAL NEGATIVE IMPACT ON INVEST-
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MADRID 04509 02 OF 02 132052Z

MENT AND EMPLOYMENT, THIS MIGHT BE LARGELY OFFSET BY RESTORATION ON CONFIDENCE RESULTING BOTH FROM THE REMOVAL OF POLITICAL UNCERTAINTIES AND THE REDUCTION OF INFLATION AND BALANCE OF PAYMENTS DEFICIT. TECHNICALLY, MOST OR ALL MEASURES OF THIS TYPE COULD BE IMPLEMENTED BY THE GOVERNMENT WITHOUT LEGISLATIVE ACTION BY THE NEW PARLIAMENT. HOWEVER, TO ENHANCE SUPPORT AND PUBLIC ACCEPTABILITY OF ACTIONS THAT WILL INEVITABLY REQUIRE MODERATION IN THE GROWTH OF DOMESTIC CONSUMPTION, THE GOVERNMENT WILL PROBABLY WANT, OR FEEL COMPELLED, TO SEEK PARLIAMENTARY APPROVAL OF AT LEAST AN OVERALL OUTLINE OF ITS PROGRAM. IF, AS ALSO SEEMS LIKELY, THE LEFT GAINS A STRONG POSITION IN THE PARLIAMENT, THE GOVERNMENT MAY DECIDE TO WATER DOWN STABILIZATION MEASURES AND MOVE FASTER ON FISCAL REFORM AND PERHAPS OTHER SOCIALLY-ORIENTED MEASURES TO SPREAD THE ADJUSTMENT BURDEN MORE EQUITABLY. THE TWO QUESTIONS MOST IN DOUBT ARE WHETHER THE GOVERNMENT WILL BE ABLE TO OBTAIN THE CO-OPERATION (OR AT LEAST ACQUIESCENCE) OF LABOR FOR WAGE RESTRAINT TO MAKE AN INCOMES POLICY FEASIBLE, AND HOW SOON AND STRONGLY THE GOVERNMENT WILL FEEL WILLING AND ABLE TO ACT ON OVERALL ECONOMIC AND SOCIAL POLICY. BOTH QUESTIONS WILL TURN ON (A) ITS WILL TO ACTION, AND (B) ITS ABILITY TO NEGOTIATE WITH THE LEFT ON WAGE AND OTHER STABILIZATION ISSUES AND WITH THE RIGHT ON SOCIAL ISSUES. THE ELECTIONS WILL AT LEAST REMOVE WHAT HAS BEEN THE MAJOR PROFESSED REASON FOR INACTION. STABLER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, EMPLOYMENT, INFLATION, DEBT REPAYMENTS, GOVERNMENT DEBTS, BALANCE OF PAYMENTS
Control Number: n/a
Copy: SINGLE
Sent Date: 13-Jun-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977MADRID04509
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770210-1118
Format: TEL
From: MADRID
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770664/aaaacdov.tel
Line Count: 254
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: c42f4f7e-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 MADRID 1145
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 25-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2177370
Secure: OPEN
Status: NATIVE
Subject: THE SPANISH ECONOMY - AN ELECTION EVE ASSESSMENT
TAGS: PINT, ECON, EFIN, SP
To: STATE USOECD
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/c42f4f7e-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009